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C O N F I D E N T I A L SANAA 001597

SIPDIS

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SUBJECT: HUNT OIL READY TO SUE ROYG IN INTERNATIONAL PUBLIC COURT

REF: A. SANAA 1571

[B](#). SANAA 1511

Classified By: DCM Nabeel Khoury for reasons 1.4 b and d.

[1](#)1. (C) Summary. Neither side is backing down in the dispute between headline American company Hunt Oil and the ROYG over the cancellation of Hunt's five-year extension to operate lucrative block 18 in Maarib. Ambassador briefed Yemen Hunt head Wyndell Caveness following his meeting with President Saleh to encourage the ROYG to settle its dispute with Hunt before it reaches litigation (refs A and B). Ambassador told Caveness that Saleh held firm to the ROYG's stance that Hunt must recompute for the concession when the PSA expires in November. Caveness replied that Hunt's position is clear -- it will sue the ROYG rather than enter into new negotiations over block 18. End Summary.

ROYG Remains Firm...

[1](#)2. (C) Ambassador briefed Caveness on his June 9 meeting with Saleh, saying he warned the President that litigation with the only major U.S. company in Yemen was not serve Yemen's interests (ref A). Saleh's recounted the ROYG's position, Ambassador told Caveness, that the "old deal is dead," and insisted that Hunt must bid on a new PSA with new conditions. He also passed along to Caveness Saleh's message to Hunt that if it recomputes for block 18 "Hunt will have the priority."

...Hunt Will Not Back Down

[1](#)3. (C) Caveness reiterated Hunt's position: The company would prefer to avoid litigation; is willing to revisit the economic details of its 2004 extension agreement with the ROYG; but, it will not negotiate anew. If the ROYG opens block 18 to other operators in November, said Caveness, Hunt will take the ROYG to court for violating a legally binding contract.

Another U.S. Company Steps In

[1](#)4. (C) Caveness told Ambassador that he believes ROYG's moves to cancel the PSA extension date back to Saleh's 2004 visit to the U.S. to attend the BMENA Sea Island meeting. He said that during that visit Saleh met with representatives of Occidental Oil has ever since wanted Occidental in and Hunt out. (Note: this is in line with Saleh's statement to Ambassador on June 9 that "no matter what, it will be an American company" in block 18. End Note).

Oil Will Still Flow, But Not Gas

[1](#)5. (C) Ambassador asked what might be the production loss for Hunt and Yemen if the case goes to the International Public Court in Paris for arbitration. Block 18 revenues would be held in escrow, said Caveness, but Hunt is willing to continue to operate for as long as the ROYG requests. As for the future of the LNG project, Caveness believes a court case over block 18 would kill the deal, not because Hunt would back out in retribution, it would not, but because the financing would dry up.
Krajewski